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DEPARTMENT OF STATE A/CDC/MR
REVIEWED BY cf DATE 8/7/81
PORTIONS DENIED AS INDICATED

SUBJ: PROBLEMS OF COOPERATION: LARG AND OIL INDUSTRY

1. NOW THAT NINE MONTHS OF TALKS ABOUT SIZE OF LARG'S TAKE FROM OIL ARE OVER, I THINK IT IS TIME TO ASSESS FUTURE PROSPECTS FOR OIL COMPANIES IN LIBYA. UNLESS SOMETHING HAPPENS TO IMPROVE IT, OUTLOOK IS UNPROMISING.

2. ELEMENTS FOR SERIOUS FUTURE CONFLICT ARE EPITOMIZED BY DIFFERING VIEWS OF TWO SIDES REGARDING CURRENT TAX-PRICE SETTLEMENT. LARG VIEWS SETTLEMENT AS RECOVERY OF BENEFITS DUE LIBYA WHICH OLD REGIME WAS TOO CORRUPT OR TOO INEPT TO SECURE. RECTIFICATION OF PAST INEQUITIES AND RECOVERY OF PEOPLE'S RIGHTS WAS THEME CONFRONTING COMPANIES DURING NEGOTIATIONS AND HAS RUN THROUGH PUBLIC ANNOUNCEMENTS, ATTRIBUTED TO DEPPRIMIN JALLUD, WHICH WERE MADE AS EACH GROUP OF SETTLEMENTS WAS REACHED. IN SUMMARIZING RESULTS OF OIL NEGOTIATIONS, JALLUD WAS CITED BY OFFICIAL LIBYAN NEWS AGENCY AS STATING THAT COMPANIES ARE TO PAY $760 MILLION TO SATISFY RETROACTIVE CLAIMS.

3. CAMPAIGN FOR "RECOVERY OF PEOPLE'S RIGHTS" HAS BEEN ONE OF THE CONSTANTS OF LIBYAN REVOLUTION. WE HAVE SEEN IT IN NEGOTIATIONS FOR EVACUATION OF FOREIGN BASES, IN EXPULSION OF ITALIAN COMMUNITY AND NOW IN OIL NEGOTIATIONS. RECTIFICATION OF THE PAST ALSO HAS BEEN MADE PRECONDITION FOR NORMALIZING RELATIONS WITH REVOLUTIONARY LIBYA -- EXCEPT THAT OIL COMPANIES, UNLIKE FOREIGN FORCES AND ITALIANS, ARE STILL IN LIBYA AND NEW RELATIONSHIP MUST NOW BE DE-

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FINED FAIRLY PROMPTLY. IN LARG'S VIEW, RECTIFICATION OF PAST IN-EQUITIES THROUGH TAX-PRICE SETTLEMENTS HAS REMOVED IMMEDIATE OB-STACLE TO LARG-OIL COMPANY RECONCILIATION. SINCE SETTLEMENT WAS OBTAINED WITHOUT ACTUAL RECOURSE TO UNILATERAL MEASURES, LARG'S LEADERSHIP SEEMS TO EXPECT COMPANIES TO BE WILLING TO COOPERATE IN FINDING AND DEVELOPING NEW OIL RESERVES WHILE CONTINUING TO EXPLOIT EXISTING FIELDS UNDER OPERATING CONDITIONS CONTROLLED BY LARG.

4. NOT SURPRISINGLY, COMPANIES HAVE SHARPLY DIFFERENT VIEW OF MEANING OF PRICE SETTLEMENT. COMPANY REPS WITH WHOM I AND MEMBERS OF MY STAFF HAVE TALKED IN RECENT WEEKS HAVE CONCLUDED THAT LARG'S SUCCESS IN ENFORCING ITS FINANCIAL DEMANDS HAS WHETTED APPETITE OF A GOVERNMENT NOW AWARE OF ECONOMIC POWER IT TEMPORARILY WIELDS BECAUSE OF ITS CONTROL OVER VITAL SOURCE OF ENERGY, AND THAT LARG CAN BE EXPECTED TO EXPLOIT THIS ADVANTAGE TO FULLEST EXTEND OF WHICH IT IS ADMINISTRATIVELY CAPABLE. STATEMENTS THAT AGREEMENTS MADE WITH OIL REGIME ARE MEANINGLESS UNLESS THEY ARE SPECIFICALLY ACCEPTED OR REVISED BY LARG REPORTEDLY WERE MADE TO SOME COMPANIES DURING NEGOTIATIONS BY MABRUK AND MAGHRABI WITHOUT CONTRADICTION BY JALLUD. ADDING TO SUCH STATEMENTS LARG'S REFUSAL DURING PRICE NEGOTIATIONS TO GIVE ANY SATISFACTION WITH RESPECT TO OPERATIONAL ISSUES. [redacted] B4 CONSEQUENCES OF THIS AS-SESSMENT ALREADY ARE BECOMING APPARENT IN TRANSFERS OF FOREIGN PERSONNEL, EITHER IN CONNECTION WITH CUTTING BACK OPERATIONS IN LIBYA OR IN MOVING SOME MANAGERIAL FUNCTIONS ABROAD, IN COST RE-DUCTION PROGRAMS AND IN FURTHER DECLINE OF EXPLORATION AND DEVELOP-MENT ACTIVITY.

5. MINIMIZING INVESTMENT AND CUTTING COSTS IS PREDICTABLE REACTION TO STIFF NEW PRICE TERMS AND FRACTURED CONFIDENCE, BUT IT ALSO IS CONTRARY TO LARG'S INTEREST, AND, I BELIEVE, TO ITS EXPECTATIONS. PROBABLE LARG COUNTERACTION, EXPECTED BY MOST COMPANIES AS RESULTS OF THEIR MOVES BECOME APPARENT, IS INTENSIFICATION OF DEMANDS FOR MORE DEVELOPMENT ACTIVITY UNDER THREAT OF FORCED RELINQUISHMENT AND, IF THESE ARE NOT MET, EFFORTS TO CONTROL CAPITAL REPATRIATION.

6. MOST HOPEFUL COMPANY ATTITUDE I HAVE HEARD EXPRESSED IN RECENT WEEKS CAME FROM [redacted] B4 WHO OBSERVED THAT LIBYA HAS GAINED GREAT DEAL BY USE OF STICK AND IT NOW WOULD BE WISE

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FOR LARG TO EMPLOY CARROT. I AGREE. IF LARG DESIRES COMPANIES TO UTILIZE THEIR EXISTING INVESTMENT AS EFFICIENTLY AS POSSIBLE AND VIEW OPPORTUNITIES FOR NEW INVESTMENT OBJECTIVELY, THEN LARG NEEDS TO FOSTER NECESSARY OPERATIONAL AND ENVIRONMENTAL CONDITIONS. IN SAYING THIS, I AM MINDFUL OF ESTIMATE OF LARG'S OIL POLICY OBJECTIVES AND LIKELY ACTIONS WE ALREADY HAVE COMMUNICATED TO DEPARTMENT (TRIPOLI 2322). [redacted] B1

[redacted] CONFIDENCE HAS BEEN IMPAIRED, AND NEEDS TO BE RESTORED ON BOTH SIDES. BUT IN WAKE OF ITS SUCCESS IN PRICE NEGOTIATIONS, LARG HAS MORE SCOPE FOR POSITIVE ACTION THAN DO COMPANIES.

8. FOR PAST YEAR, DEPPRIMIN JALLUD HAS BEEN RCC'S AGENT FOR DEALING WITH FOREIGN INTERESTS. NOW, HE ALSO IS SENIOR RCC AND LARG OFFICIAL RESPONSIBLE FOR DEVELOPMENT OF "PRODUCTION SECTOR". SPATE OF STATEMENTS RECENTLY MADE BY JALLUD WHILE HE OFFICIATED AT FACTORY OPENINGS, ENCOURAGING PRIVATE CAPITAL TO JOIN IN DEVELOPMENT EFFORT, IS INDICATION THAT, WITH CONCLUSION OF OIL NEGOTIATIONS, HE IS DEVOTING MORE TIME TO PROBLEMS OF DEVELOPMENT. THEREFORE, WHEN I NEXT SEE HIM, I INTENT TO [redacted] B1 COUNSEL HIM TO RELAX ADVERSARY TACTICS LARG HAS EMPLOYED VIS-A-VIS OIL COMPANIES. GP-4. PALMER

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